

Message Text

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ACTION NEA-10

INFO OCT-01 AF-08 EUR-12 IO-13 ISO-00 CIAE-00 DODE-00
PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-02 PRS-01
SP-02 SS-15 USIA-15 AID-05 COME-00 EB-08 FRB-01
TRSE-00 XMB-04 OPIC-06 CIEP-02 LAB-04 SIL-01 OMB-01
/132 W

-----311205Z 121738 /10

R 310730Z JAN 77
FM AMEMBASSY BEIRUT
TO SECSTATE WASHDC 2870
INFO AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
AMEMBASSY AMMAN
AMEMBASSY ATHENS
USINT BAGHDAD
AMEMBASSY CAIRO
AMEMBASSY DAMASCUS
AMCONSUL DHAHRAN
AMEMBASSY DOHA
AMCONSUL JERUSALEM
AMEMBASSY JIDDA
AMEMBASSY KHARTOUM
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY MANAMA
AMEMBASSY MOGADISCIO
AMEMBASSY MUSCAT
AMEMBASSY NICOSIA
AMEMBASSY PARIS
AMEMBASSY RABAT
AMEMBASSY ROME
AMEMBASSY SANA
AMEMBASSY TEHRAN
AMEMBASSY TEL AVIV
AMEMBASSY TRIPOLI
AMEMBASSY TUNIS
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UNCLAS SECTION 1 OF 2 BEIRUT 0381

DEPT PASS COMMERCE

E.O. 11652: N/A

TAGS: EFIN, EINV, LE, EALR

SUBJECT: BEIRUT BANKING SECTOR RESUMES ACTIVITY

1. SUMMARY: BEIRUT'S BANKS OFFICIALLY REOPENED JANUARY 17, WITH HEAVY SECURITY AND FANFARE. RIAD SOLH STREET WAS UNDAMAGED BY THE WAR, ALTHOUGH IT IS SURROUNDED BY DEVASTATION, AND HAS NOW RETURNED TO LIFE AS LEBANON'S WALL STREET. DURING THE FIRST WEEK, THERE WAS NO RUN ON DEPOSITS AND THE BANKS ENCOUNTERED NO LIQUIDITY PROBLEMS. CURRENCY EXCHANGE RATES WERE STABLE.

2. BANKER'S EXPECTATIONS ARE HIGH. THEY LOOK FORWARD TO A RECORD LL 10 BILLION IN DEPOSITS BEFORE THE END OF THE YEAR, PART OF IT REABSORBING THE GREATLY EXPANDED SUPPLY OF CURRENCY PRESENTLY IN CIRCULATION. IMMEDIATELY PRIOR TO THE WAR (1974), BEIRUT HAD 74 BANKS AND 56 FOREIGN BANK REPRESENTATIVE OFFICES, WITH A TOTAL TURNOVER OF SOME LL 11.4 BILLION, AND WITH OVER 8000 EMPLOYEES. BEIRUTIS SEE THAT THY ESSENTIAL ELEMENTS OF THE MILIEU WHICH PERMITTED THIS EARLIER GROWTH HAVE BEEN PRESERVED, AND FULLY EXPECT A NEW BANKING BOOM. ASSUMING CONTINUED IMPROVEMENT IN THE SECURITY SITUATION, EMBASSY BEIRUT AGREES. END SUMMARY.

3. BANKS REOPEN. FOLLOWING A DECISION BY THE LEBANESE BANKING ASSOCIATION, ALMOST ALL BANKS FORMERLY OPERATING IN LEBANON OFFICIALLY REOPENED ON JANUARY 17, AFTER SOME TEN MONTHS'S CLOSURE DUE TO THE CIVIL STRIFE. A NUMBER OF BANKS HAD REOPENED UNOFF ICIALLY TO CLIENTS EARLIER. SEVERAL OTHERS HAD KEPT THEIR OPERATIONS GOING FROM BRANCHES IN PARTS OF THE CAPITAL AWAY FROM THE BATTLE ZONES AND THE PROVINCES. RIAD UNCLASSIFIED

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SOLH STREET REMAINS LEBANON'S WALL STREET, WHERE MOST LEADING BANKS HAVE DECIDED TO MAINTAIN THEIR HEADQUARTERS.

4. SECURITY MEASURES. TIGHT SECURITY MEASURES WERE TAKEN JAN.17, AT RIAD SOLH AND AT BANKS ELSEWHERE. FULL SCALE NORMAL EMPLOYEES. SPECIAL SECURITY MEASURES WERE ALSO TAKEN TO PROTECT THE MOVEMENT OF FUNDS BETWEEN THE CENTRAL BANK AND COMMERCIAL BANKS.

5. BUSINESS AS NORMAL. ACTIVITY DURING THE FIRST WEEK OF OPERATION WAS REMARKABLY NORMAL:

A) THE VOLUME OF BUSINESS WAS NORMAL, NO UNUSUAL WITHDRAWALS OF FUNDS OR CAPITAL TRANSFERS RESULTED. NO LIQUIDITY PROBLEMS OCCURRED, THE CENTRAL BANK HAVING PROVIDED BANKING ESTABLISHMENTS IN ADVANCE WITH SUFFICIENT CASH TO MEET ALL DEMANDS. THE BANKS ANNOUNCED THEIR READINESS TO PAY ANY AMOUNT REQUIRED BY THEIR DEPOSITORS. DEPOSITORS WERE NUMEROUS, SUGGESTING A RETURN OF CONFIDENCE. NO SIGNIFICANT FLUCTUATIONS IN THE

EXCHANGE RATES OF FOREIGN CURRENCIES OCCURRED. US DOLLAR-
LEBANESE POUND EXCHANGE RATES REMAINED ABOUT THE SAME AS
DURING THE WEEKS PRIOR TO AND AFTER THE REOPENING.

6. PRE-WAR SIZE OF THE BANKING COMMUNITY. ACCORDING TO
THE PATEST AVILABLE LIST, PUBLISHED IN THE GOVERNMENT'S
OFFICIAL GAZETTE IN MARCH 1975, SEVENTY FOUR BANKS WERETHEN OPERATING
IN LEBANON, AS WELL AS FIVE SPECIALIZED MEDIUM
AND LONG TERM FINANCIAL ESTABLISHMENTS, IN ADDITION, FIFTY
SIX FOREIGN BANKS HAD REPRESENTATIVE OFFICES IN BEIRUT. IN
1974, THE LATEST YEAR FOR WHICH STATISTICS ARE NOW AVAILABLE,
THE NUMBER OF EMPLOYEES IN THE BANKING SECTOR WAS 8169, AN
INCREASE OF 1012 OVER 1973. DURING THE CIVIL WAR A NUMBER OF
THESE EMPLOYEES LEFT LEBANON TO WORK IN OTHER COUNTRIES.

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7. PRE-WAR TURNOVER. ACCORDING TO THE LATEST BALANCE SHEETS PUBLISHED BY OPERATING COMMERCIAL BANKS, THEIR TOTAL BUSINESS TURNOVER AMOUNTED TO LL 11.4 BILLIONS BY THE END OF 1974, AN LL 2.4 BILLION INCREASE OVER 1973 -(MORE RECENT FIGURES FOR 1975 AND 1976 ARE NOT AVAILABLE.) OF THE 74 BANKS, TURNOVER IN 1974 BY GROUPS WAS AS FOLLOWS:

-12 FOREIGN OWNED BANKS..... LL 3346 MILLION

- 5 ARAB BANKS LL 1191 MILLION

-22 LEBANESE BANKS WITH A MAJORITY OF THEIR
SHARES FOREIGN-OWNEDLL 4663 MILLION

- 4 LEBANESE BANKS WITH A MAJORITY OF SHARES
ARAB OWNED (TURNOVER OF ONE BANK NOT GIVEN) LL600 MILLION

-31 LEBANESE BANKS FULLY LEBANESE OWNED LL 3914 MILLION

- IN ADDITION, 5 LEBANESE MEDIUM AND LONG TERM
ESTABLISHMENTS (TURNOVER OF ONE NOT GIVEN).....LL 180 MILLION

8. PRE-WAR DEPOSITS AND CREDITS. COMMERCIAL BANKS DEPOSITS BY THE END OF JUNE 1975 AMOUNTED TO ABOUT LL 10 BILLION AS AGAINST LL 7 BILLION AT THE END OF JUNE 1974 AND LL 8.2 BILLION AT THE END OF 1974. BANK CREDITS TOTALLED APPROXIMATELY LL 6.5 BILLIONS IN JUNE 1975, COMPARED TO LL 5.3 BILLION IN JUNE 1974 AND LL 5.8 BILLION AT THE END OF DEC. 1974.

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THE GOVERNMENT WILL SOON MAKE A DECISION ON THE COLLECTION OF BANK LOANS AND CREDITS.

9. EXPECTATIONS IN DOMESTIC BANKING. REPRESENTATIVES OF THE BANKING ASSOCIATION BELIEVE 1977 WILL WITNESS A SIGNIFICANT INCREASE (COMPARED TO LL 7 BILLION IN 1973).

THIS INCREASE IN DEPOSITS WILL HELP REABSORB PART OF THE MONEY IN CIRCULATION, WHICH JUMPED FROM LL 1.5 BILLIONS IN 1974 TO LL 3.25 BILLION IN 1976.

10. EXPECTATIONS IN INTERNATIONAL BANKING. FOREIGN BANKING INTERESTS HAD INCREASED GREATLY IN 1974. THEY ARE EXPECTED TO INCREASE AGAIN WITH THE ESTABLISHMENT OF A LEGAL "FREE ZONE" FOR OFFSHORE OPERATIONS, THAT IS, A LEGAL DEVICE GUARANTEEING TAX EXEMPTION FOR FOREIGN DEPOSITS - AN EFFORTS TO ATTRACT MORE OF THE REGION'S OIL WEALTH. THE BASIC LEGISLATION WAS PASSED BEFORE THE OUTBREAK OF THE WAR, BUT HAS YET TO BE IMPLEMENTED.

1. OPTIMISM IN THE BANKING COMMUNITY. LEADING BANKING CIRCLES ARE CONFIDENT THAT, WITH THE GRADUAL RETURN TO SECURITY IN LEBANON, BEIRUT WILL REGAIN ITS FORMER PRIVILEGED POSITION AS THE UNRIVALLED BANKING AND FINANCIAL CENTER OF THE MIDDLE EAST. FACTORS WHICH, THEY BELIEVE, WILL CONTRIBUTE TO THE REVIVAL INCLUDE THE LIBERAL ECONOMIC SYSTEM WHICH THE NEW GOVERNMENT WANTS TO MAINTAIN AND IMPROVE, THE FREE FOREIGN EXCHANGE SYSTEM, THE BANKING SECRECY, THE CONTINUED MIDDLE EAST OIL BOOM AND RESULTING ECONOMIC GROWTH IN THS ARAB COUNTRIES, AND THE SURVIVAL OF THY LEBANESE EXPERTISE IN COMMERCE AND BANKING.

12. COMMENT: THERE CAN BE NO QUESTION OF THE COMMITMENT OF THE NEW LEBANESE GOVERNMENT TO REESTABLISHING BEIRUT AS THE CAPITAL OF MIDEAST FINANCE AND TRADE. BOTH PRESIDENT SARKIS AND PRIME MINISTER HOSS ARE THEMSELVES DISTINGUISHED
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ALUMNI OF THY BANKING PROFESSION. THE GOVERNMENT IS DETERMINED TO REVITALIZE THE ECONOMY AND HAS ALREADY TAKEN A NUMBER OF FUNDAMENTAL STEPS, INCLUDING A SPECIAL APPROPRIATION TO REPAIR THE TELECOMMUNICATION SYSTEM, WHICH IT KNOWS IS THE KEY TO ATTRACTING BACK FOREIGN BANKING AND BUSINESS, AND A FOREIGN INVESTMENT GUARANTEE LAW (SEE BEIRUT 241). DESPITE THE WAR, LEBANON'S CENTRAL BANK IS ITSELF IN A SOLID FINANCIAL POSITION (SEE 76 BEIRUT 9055), PROVIDING AN EXCELLENT BASE FOR A RAPID RECOVERY.

13. OUR CONVERSATIONS WITH REPRESENTATIVES OF MAJOR
AMERICAN BANKS BOTH BEFORE THE GOVERNMENT BEGAN TO MOVE (SEE
FOR EXAMPLE 76 BEIRUT 8813) AND MORE RECENTLY SUGGEST THAT
THEY, TOO, ARE HOPEFUL. AS A MINIMUM, THEY ARE GETTING
POSITIONED TO RIDE A NEW BEIRUT BANKING BOOM.
END COMMENT.
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Message Attributes

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